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# **Session 3:**

## **Organization and Governance of the Monitoring Function**

RTO West Market Monitoring Workshop  
Portland, Oregon  
June 22, 2000

# RTO West Market Monitoring Workshop

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Session 1: Market Monitoring: Why

Session 2: Who Will Monitor; the RTO's Role

➔ **Session 3: Organization and Governance of Monitoring**

Session 4: Monitoring Tasks and Process

Session 5: Authority to Address Problems

Session 6: Access to, Disclosure of Sensitive Information

Session 7: Market Power Issues

## Scope and Focus of Session 3

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- The organization of the monitoring function (within RTO or outside, etc.)
- Governance of the monitoring function (who must approve the monitor's actions, etc.)
- Relationships of monitoring function to other entities

# Objectives Guiding These Choices

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- Objectivity; independence of the monitored markets
  - Is RTO independent of any and all *participants*? Must be.
  - Is RTO independent of the *markets*? Order 2000 accepts there can be an issue here (RTO is a buyer of services)
- Effectiveness in its tasks (access to information, etc.)
- Quality control, consistency w/ RTO policies (RTO team)
- Ability to objectively review RTO rules, performance
- Ability to get the right expertise involved as needed
- Other objectives?

# Organization and Governance Choices Depend Upon RTO Monitoring Focus, Likely Problems

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- The prioritization of these objectives will depend upon the types of potential problems monitoring is expected to focus on; which are most important?
  - Design flaws, software/hardware/wetware errors
  - Gaming or market power of transmission owners; generation owners; other participants
  - RTO performance, RTO involvement in markets

# Monitoring Involves Both Day-To-Day and “Big Picture” Activities

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- Day-to-day:
  - Monitor market results for evidence of hardware/software errors, market design flaws, etc. and make any corrections
  - Monitor for gaming or market power, administer any authorized mitigation
  - Monitor, enforce tariff compliance
- Bigger picture:
  - Assess effectiveness of RTO market design, rules, etc.
  - Determine needed market design improvements
  - Determine policies for exercising authority, thresholds, etc.

# Alternatives for the Organization of the Monitoring Function

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- RTO internal Market Monitoring Unit (MMU)
  - Dedicated staff, separate from, but with access to other RTO staff (data regarding investigations must be kept confidential, separate hardware and software needs)
- Can RTO staff with other responsibilities also perform the monitoring?
- Market monitoring function outside of the RTO?
  - New organization or added function of existing organization
  - Midwest ISO plan: possibly “under contract” to ISO
- Outside experts may augment day-to-day monitoring staff

# Organization of Monitoring at Existing ISOs

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- All four have internal MMUs (staffing: 4-8)
- Outside experts:
  - PJM, ISO-NE: *ad hoc* basis (no formal role)
  - CA-ISO, CA-PX, NYISO: Outside experts appointed by Board, with formal responsibilities under monitoring plan.
  - CA: 3-4 member panels (ISO Market Surveillance Committee, PX Market Monitoring Committee)
  - NY: Market Advisor, a consultant
- Midwest ISO: Plan allows internal or external group to perform the monitoring; no mention of outside experts.

# Use of Outside Experts or Panel

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- Typical role and responsibilities:
  - Could be ad hoc or a standing panel
  - Provide expertise to augment skills of day-to-day MMU staff
  - Review and comment on data, indices, evaluation criteria, etc. used by MMU
  - Independently review and analysis of markets
  - Produce regular and occasional reports
- Qualifications:
  - Independence
  - Recognized expertise in relevant areas (electricity markets and market design, market power, economics, finance, etc. )

# FERC's Views on Use of Outside Experts

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- Did not require use of outside experts in Order 2000
- Expressed a strong preference for it in ISO-NE decision:  

“Finally, we strongly encourage NEPOOL to provide for monitoring both by the ISO as well as qualified independent outside experts. Each can provide a valuable monitoring perspective. The ISO will have the ability to observe the markets as they perform on a day-to-day basis. Qualified independent outside experts can bring an added level of expertise, as well as an outside perspective regarding market behavior and market anomalies that may develop.” (OA97-237, 12/17/98)

## Governance, Reporting Relationships: California ISO Monitoring

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- MMU reports to ISO CEO
- CEO and outside panel have independent authority to refer matters to ISO Board
- ISO Board imposes any sanctions or penalties, upon recommendation of CEO or outside panel
- MMU when appropriate “refers matters through the ISO CEO” to regulatory authorities; Board is informed
- At outside panel’s request, ISO CEO is to publish its reports or incorporate them into the ISO’s reports

# Governance, Reporting Relationships: PJM Monitoring

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- MMU is accountable to President, Board
- President, MMU have independent authority to refer matters to Board
- Regulatory filings require Board approval
- FERC has made it clear to MMU that it can approach FERC directly with recommendations
- Government agencies can request additional reports, which are provided subject to protection of confidential information.

## Governance, Reporting Relationships: NYISO Monitoring

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- MMU reports to ISO CEO
- Market Advisor is accountable to CEO, serves at pleasure of Board, has independent authority to refer matters to Board
- MMU with CEO approval and “in consultation with Market Advisor” imposes approved mitigation, invokes dispute resolution, refers matters to regulatory authorities
- Board, CEO or interested government agencies can require MMU or Market Advisor to prepare additional reports.

## Other Governance and Reporting Issues

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- RTO Board, or some other RTO committee to make final call on imposition of any sanctions, penalties, etc.?
- Relationship of RTO monitoring to
  - Market monitors in interconnected areas
  - WSCC
  - Any new WSCC-wide industry organization or monitoring entity
  - Other Northwest organizations

# Organization and Governance Alternatives: Summary

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- MMU: Internal to RTO or separate? If separate, what access to confidential market information, RTO staff? What role with respect to design flaws?
- How much independent authority without RTO CEO or Board approval?
- Who makes final call on big issues such as sanctions?
- Outside expert role in monitoring? Standing panel or *ad hoc*?

# Organization and Governance Alternatives: Discussion

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